

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2009-479-W/S

IN RE:)
)
Application of United Utility Companies,)
Inc. for adjustment of rates and charges)
and modifications to certain terms)
and conditions for the provision of)
water and sewer service.)
_____)

DIRECT TESTIMONY
OF
LENA GEORGIEV

Q. WOULD YOU PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS FOR THE RECORD?

A. Yes. My name is Lena Georgiev. I am employed as a Manager of Regulatory Affairs at Utilities, Inc., 2335 Sanders Road, Northbrook, Illinois 60062.

Q. PLEASE SUMMARIZE YOUR PROFESSIONAL BACKGROUND.

A. I have been employed by Utilities, Inc. since January of 2006. Since that time I have been involved in several phases of rate-making proceedings in several regulatory jurisdictions, including this Commission. I graduated from University of Illinois at Chicago in 2000, and I am a Certified Public Accountant. I had four years of public accounting/auditing experience prior to joining Utilities, Inc. I am a member of the American Institute of Certified Public Accountants and have successfully completed the utility rate regulation seminar sponsored by NARUC.

Q. WHAT ARE YOUR JOB RESPONSIBILITIES AT UTILITIES, INC.?

A. My responsibilities include: financial analysis of individual subsidiaries of Utilities, Inc., preparation of rate applications, facilitation of regulatory audits, and the submission of testimony and exhibits to support rate applications. I am responsible for a team involved in regulatory matters in the Utilities, Inc. Atlantic and Southeast Regions.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2 A. The purpose of my testimony is to sponsor United Utility Companies, Inc.'s
3 application for an adjustment of certain rates and charges for the provision of water and
4 sewer services.
5

6 **Q. PLEASE DESCRIBE UNITED UTILITY COMPANIES, INC.**

7 A. United Utility Companies, Inc., which I will sometimes refer to as "United" or the
8 "Company", is a wholly owned subsidiary of Utilities, Inc. United was incorporated in
9 1983 for the purpose of owning and operating water utility systems. Currently, United
10 serves over 1650 sewer customers and 90 water customers in South Carolina. These
11 customers are located in six counties throughout South Carolina. United maintains and
12 operations and customer service offices in West Columbia, South Carolina. Customer
13 payments, meter readings and services, management, accounting, human resources, and
14 data processing are performed from the Utilities, Inc., office in Northbrook, Illinois.
15

16 **Q. WOULD YOU PLEASE DESCRIBE UTILITIES, INC.?**

17 A. Yes. Utilities, Inc. or, as I will sometimes refer to it, "UI", is unique within the
18 water and sewer industry in many respects. From its inception almost 40 years ago UI
19 has concentrated on the purchase, formation and expansion of smaller water and/or sewer
20 utility systems. At the present time, UI has over 90 systems that provide service to
21 approximately 300,000 customers in 15 states.
22

23 **Q. DO UNITED CUSTOMERS BENEFIT FROM THE COMPANY'S SUBSIDIARY**
24 **RELATIONSHIP WITH UI?**

25 A. Yes. The Company's relationship with UI has many benefits for our customers.
26 One of the primary benefits is that United has access to a large pool of human resources
27 from which to draw upon. There are experts in various critical areas, such as
28 construction, engineering operations, accounting, data processing, billing, regulation,
29 customer service, etc. This serves United's customers well in that UI is able to provide
30 the highest level of combined expertise and experience in a more cost effective manner.

1 In particular, UI provides managerial and professional services at a cost lower than is
2 available in the open market. United is then able to pass these savings onto its customers
3 in the through lower rates.
4

5 Because the UI companies are focused on the water and sewer industry, our
6 companies enjoy some unique advantages, one of which is that capital is available for
7 improvements to and expansions of our individual systems at a more reasonable cost than
8 would be the case if the company were not wholly owned by UI. With increasingly more
9 stringent health and environmental standards, ready access to capital will prove vital to
10 continued quality service in the water and sewer utility business.
11

12 In addition, the UI group of companies has national purchasing power that results
13 in lower costs to rate payers. Expenditures for insurance, vehicles, chemicals and meters
14 are a few examples of purchases where national contracts provide tangible benefits to
15 rate-payers.
16

17 **Q. WHY IS UNITED REQUESTING RATE RELIEF AT THIS TIME?**

18 A. Under present rates, United is not able to meet its operating costs and earn a
19 reasonable return on its investment in the United system. The utility's current income
20 statement is shown in the Company's Rate Case Application, Schedule B.
21

22 For the test year ended December 31, 2008, United earned a 0.59% return on its
23 rate base, which is between approximately 7.86% to 8.91% lower than the Company's
24 current cost of capital which, as the Commission will hear from the Company's cost of
25 capital witness Pauline Ahern, is 8.45% to 9.50%. This return on rate base is also
26 approximately 8.72% below that authorized in the Commission's last order granting rate
27 relief to United.
28

29 According to the statistics compiled by the United States Department of Labor
30 Bureau and Labor Statistics, the cost of water and sewer maintenance alone has increased

1 approximately by 5.69% per year since the last rate case. Without satisfactory rate relief,
2 United's ability to continue to provide safe, reliable and efficient water and sewer utility
3 services to its customers will be placed in jeopardy, and United will be unable to meet its
4 financial obligations.

5
6 **Q. PLEASE DESCRIBE THE COMPANY'S APPLICATION.**

7 A. The Rate Case Application includes the financial statements for United. The
8 subsections are as follows:

9 Schedule A – Balance Sheet

10 Schedule B – Income Statement

11 Schedule C – Rate Base and Rate of Return

12 Schedule D – Test Year / Present Revenues

13 Schedule E – Proposed Revenues

14 Schedule F – Current and Projected Customers

15 Schedule G – Effect of Proposed Rates

16 Also, included are the most recent letters from DHEC, a sample customer bill form and
17 the Company's most recent Gross Receipts Tax filing. The test year chosen is the year
18 ended December 31, 2008 which was the twelve-month period of the Company's most
19 recent fiscal year available at the time of the Company's filing.

20
21 **Q. PLEASE EXPLAIN HOW TEST YEAR EXPENSES WERE ADJUSTED.**

22 A. Pro forma adjustments were made to the test year expenses based on known and
23 measurable changes to actual expenses.

24
25 **Q. WHAT ARE THE KNOWN AND MEASURABLE PRO FORMA ADJUSTMENTS
26 MADE TO THE INCOME STATEMENT SCHEDULE B?**

27 A. The following adjustments have been made to the income statement:

- 28
- Revenues are annualized at proposed rates using the average test year customers;

- Uncollectible Accounts are adjusted based on the percentage of uncollectible accounts to revenues in the test year applied to pro forma proposed revenues;
- Salaries, Wages and Benefits are adjusted to annualize as of the end of the year;
- Regulatory Commission Expense has been adjusted to reflect the cost of the current rate case over 3 years;
- Depreciation and Amortization Expense are annualized. Depreciation expense represents gross depreciable plant at the end of the year plus pro forma projects multiplied by their respective depreciation rates;
- Taxes other than Income is adjusted for annualized payroll taxes, Utility Commission Taxes, and Gross Receipts Taxes;
- Income Taxes are computed on taxable income at current rates;
- AFUDC is eliminated for rate making purposes;
- Interest on debt is computed using a 53.3%/46.7% debt/equity ratio and a 6.60% cost of debt; and;
- A consumer price index increase of 5.69% has been included;
- Adjustment has been made to reflect DHEC fees attributable to United.
- Transportation and depreciation expense adjustments are based on a new allocation methodology;
- Operating expense charged to plant has been adjusted for projected increases in salaries, taxes, and benefits for operators.

The Company's pro-forma operation expenses have increased by 78% since the Company last received rate relief. This increase in expenses contributes to the Company's need for rate relief.

Q. REGARDING THE COMPANY'S EXPENSES, CAN YOU DETAIL HOW THOSE EXPENSES HAVE INCREASED SINCE THE COMPANY'S LAST RATE INCREASE AND ITS LAST RATE CASE TEST YEAR?

A. Certainly. In 2000, United filed an application for an adjustment in its rates and charges in Docket No. 2000-210-W/S which was granted by Commission Order No. 2004-

254 dated May 19, 2004. Since the test year in that proceeding, which was for the twelve-month period ending December 31, 2000, the Company has experienced an increase in expenses in the following areas:

	Pro Forma Present Per 00 Application	Pro Forma Present Per 08 Application	Difference	%
Purchased Power/ Water/ Sewer, Chemicals	\$65,178	\$142,109	\$76,931	118%
Salary, Benefits, Insurance	\$154,015	\$188,705	\$34,689	23%
Office Supplies/ Maintenance/Utils.	\$24,001	\$43,139	\$19,138	80%
Maintenance/ Testing/Oper. Expense	\$153,595	\$177,782	\$24,188	16%
Transportation	\$6,809	\$19,207	\$12,397	182%
Rate Case Expense	\$25,542	\$74,509	\$48,967	192%
Depreciation	\$57,537	\$87,114	\$29,577	51%
Amortization	(\$28,243)	(\$44,580)	(\$16,336)	58%
Taxes	(\$26,116)	\$81,005	\$107,121	410%
Total	\$432,319	\$768,990	\$336,671	78%

Q. REGARDING THE COMPANY'S RATE BASE, HAS IT ALSO INCREASED SINCE THE COMPANY'S LAST RATE INCREASE AND ITS LAST RATE CASE TEST YEAR AND, IF SO, HOW?

A. Yes. Since United's test year ending December 31, 2000, United also has increased its total rate base from \$1,099,742 to \$3,187,976 as follows:

	Pro Forma Present Per 00 Application	Pro Forma Present Per 08 Application	Difference	%
Plant in Service	\$3,067,547	\$6,249,699	\$3,182,152	104%
Accumulated Depreciation	-\$229,884	-\$300,370	-\$70,486	31%
Cash working capital	\$59,059	\$94,886	\$35,827	61%
CIAC	-\$1,719,531	-\$2,492,850	-\$773,318	45%
WSC	\$13,397	\$0	-\$13,397	-100%
Pro forma Plant	\$87,353	\$0	-\$87,353	-100%
Customer deposits	-\$23,294	-\$57,714	-\$34,420	148%
ADIT	-\$154,905	-\$305,676	-\$150,771	97%
Total	\$1,099,742	\$3,187,976	\$2,088,234	190%

As well, United has made improvements in several categories of plant which are more fully described in Exhibit A attached to my direct testimony. It is important to note that WSC rate base in 2000 was presented separately in the filing. In 2008 it has been included part of the total Plant in Service. Additionally, the 2001-2008 pro forma projects reflected in the application have been accounted for separately.

1 **Q. HOW HAVE THE INDIVIDUAL SYSTEMS/SUBDIVISIONS SERVED BY**
2 **UNITED BENEFITTED FROM THE ADDITIONS TO PLANT?**

3 A. As shown in the above chart, the Company has added approximately \$3.2 million in
4 plant in service since its last rate case. Of this amount, approximately \$1.9 million has
5 been invested in system improvements. As more fully addressed by Company Witness
6 Haas, these plant additions include the replacement and upgrade of sewer and water mains,
7 meters, lift station and other plant used in ensuring that customers receive safe and reliable
8 sewer service. The Company has also added approximately \$1.3 million in plant which
9 directly benefits certain subdivisions. Company Witness Haas will further describe these
10 improvements as well; however, these items include:

- 11 • 2004 – Replacement and repair of the Company’s aerators serving the Valleybrook
12 subdivision. This improvement totaled \$7,261.
- 13 • 2005 – Upgrade of the lift station serving the Fairwood subdivision. This
14 improvement totaled \$53,277.
- 15 • 2006 – Upgrade and combine the wastewater treatment plants serving the Chambert
16 Forest subdivision. These improvements totaled \$3,156.
- 17 • 2006 – Landscape and raise the top of the oxidation ditch serving the Valleybrook
18 subdivision. This improvement totaled \$4,489.
- 19 • 2006 – Replaced 600 feet of 8” sewer main and repaired two manholes in the
20 Village subdivision. This improvement totaled \$23,812
- 21 • 2007 – Installation of a new clarifier at the wastewater treatment plant serving the
22 Canterbury subdivision. This improvement totaled \$305,066.
- 23 • 2007 – Combined and upgraded the wastewater treatment plants serving the
24 Chambert Forest subdivision. This improvement totaled \$492,359.
- 25 • 2008 – Replace water service to the wastewater treatment plant serving the
26 Trollingwood subdivision. This improvement totaled \$7,508.

27
28 **Q. DID THE COMPANY MAKE OTHER IMPROVEMENTS THAT BENEFITTED**
29 **ALL OF THE SYSTEMS/SUBDIVISIONS?**

30 A. Yes. In 2002, the Company purchased a 60kw portable generator which is used by

1 UUC's operators in the field in serving all of the subdivisions. The cost of this
2 improvement totaled \$44,415. Additionally, as Company Witness Williams has described,
3 in 2008, Utilities, Inc. implemented Project Phoenix which improved the Company's
4 capabilities and processes in the accounting, customer service, customer billing and
5 financial and regulatory reporting areas thus benefitting customers. UUC's allocated
6 amount of the cost of Project Phoenix totaled \$91,060.

7
8 **Q. WHAT ARE THE PRO FORMA ADJUSTMENTS MADE TO THE RATE BASE**
9 **STATEMENT (SCHEDULE C)?**

10 A. The following adjustments were made to the rate base statement:

- 11 • Working capital has been calculated based on pro forma expenses;
- 12 • Accumulated depreciation has been adjusted for planned additional capital
13 investments, retirements, and plant held for future use. Accumulated depreciation
14 for computers and vehicles is recalculated based on the Equivalent Residential
15 Customers, or "ERC" allocation methodology.
- 16 • General ledger additions and associated accumulated depreciation up to rate base
17 audit cut-off date established by the Office of Regulatory Staff, or "ORS", have
18 been added.
- 19 • Contribution in aid of Construction, or "CIAC" amortization expense is
20 annualized using the appropriate amortization rate.

21 As of December 31, 2008, the Company has a rate base of over \$3 million. Between
22 2001 and 2008, United has spent approximately \$3.1 million on capital expenditures for
23 various projects throughout our systems, including the expansions and upgrades to
24 several wastewater treatment plants, along with the replacement of mains, manholes and
25 other infrastructure. A list of these capital improvements, by subdivision or system
26 where appropriate, is provided as an exhibit to the testimony of Company witness Bruce
27 Haas. Documentation of these improvements was also provided to ORS in the course of
28 its audit.

1 **Q. YOU MENTIONED THAT THE COMPANY ADDED GENERAL LEDGER**
2 **ADDITIONS AND PRO FORMA PLANT ADDITIONS; COULD YOU DESCRIBE**
3 **THOSE PROJECTS?**

4 A. Certainly. UUC has completed the following pro forma projects:
5

Install digester	\$26,131
Replace two blowers	\$7,785
Paint tanks and build new catwalks	\$40,110
Retirements for pro forma projects 2008	(\$142,650)
2009 G/L Additions treated as pro-forma	\$146,666
Re-allocation of Vehicles and Computers	(\$16,009)
Total 2008 Pro Forma Adjustments in Filing	\$62,033

6
7 **Q. REGARDING THE COMPANY'S RATE BASE, HAVE ANY CAPITAL**
8 **IMPROVEMENTS BEEN MADE TO ADDRESS THE RECOMMENDATIONS**
9 **MADE BY SCHUMAKER & COMPANY IN THE MANAGEMENT AUDIT IT**
10 **PERFORMED AS PROVIDED FOR UNDER COMMISSION ORDER NUMBER**
11 **2006-284?**

12 A. Yes. As is noted in the testimony of Company Witness John Williams, UI has
13 acquired and installed new computer software, mostly as a result of Project Phoenix, that
14 addresses deficiencies in that area noted in the Management Audit. The total cost of these
15 improvements attributable to UUC, which is \$96,708, has been included in Company's
16 proposed rate base.
17

18 **Q. WOULD YOU PLEASE SUMMARIZE THE PROPOSED CHANGES IN THE**
19 **COMPANY'S RATE SCHEDULE?**

20 A. Exhibit "A" to the Application contains the Company's Schedule of Proposed
21 Water and Sewer Charges. The company has proposed to increase the water customer
22 Residential Base Facility Charge and the Commercial Base Facility Charge from the

current charge of \$11.50 per month to \$20.69 per month and the water Commodity Charge from \$4.50 per 1,000 gallons to \$8.09 per 1,000 gallons.

The Company has proposed to increase its sewer charges as follows:

Type	Present	Proposed
Residential	\$48.24	\$73.89
Commercial SFE	\$48.24	\$73.89
Mobile Home	\$35.58	\$54.50
Sewer collection	\$24.66	\$37.77

Q. YOU MENTIONED A NEW ALLOCATION METHODOLOGY OF COMMON COSTS; WOULD YOU PLEASE ELABORATE ON THAT?

A. Certainly. As I previously stated, United is a wholly owned subsidiary of Utilities, Inc. Utilities, Inc. also wholly owns over 90 other subsidiaries in 15 different states. Utilities, Inc. also wholly owns Water Service Corporation, or “WSC”, which is a company that manages the water and sewer operations for Utilities, Inc. subsidiaries. WSC operates without profit. Costs that are not directly assignable to a specific subsidiary are booked to WSC and are allocated to the Utilities, Inc. subsidiaries at year end, based on the proportion of active Equivalent Residential Customers (“ERCs”) served by the operating company subsidiary to the total number of active ERCs served by the UI’s other operating company subsidiaries.

Q. WHAT RATEMAKING METHODOLOGY DOES THE COMPANY PROPOSE THAT THE COMMISSION EMPLOY IN THIS RATE CASE?

A. The Company proposes that its rates continue to be determined utilizing the rate of return on rate base methodology. The Company has a large rate base and needs to earn a rate of return that is sufficient to obtain the necessary equity and debt capital that a larger utility needs for sound operation.

1 **Q. DOES THE COMPANY SEEK TO INCLUDE ANY PAYMENTS TO**
2 **AFFILIATED ENTITIES?**

3 A. Yes, the Company proposes to include payments to an affiliated company, Bio-
4 Tech, Inc. However, Company Witness Bruce Haas will address that issue.
5

6 **Q. WOULD NOT THE EXPENSES ASSOCIATED WITH THE SERVICES**
7 **PROVIDED TO THE COMPANY BY WATER SERVICE CORPORATION**
8 **ALSO CONSTITUTE AFFILIATE PAYMENTS?**

9 A. No, they would not because there are no payments involved, only expense
10 allocations. As the Commission knows from the nearly thirty years worth of rate cases it
11 has considered involving the Company and other affiliates of Utilities, Inc., WSC is
12 captive in the sense that its services, which include management, payroll, tax, accounting,
13 procurement services, are only provided to subsidiaries of Utilities, Inc. As the
14 Commission's decisions through the years accepting this arrangement reflect, it is cost
15 efficient since it avoids duplication of these services and functions for each operating
16 company subsidiary. This conclusion is tested in each rate case by an audit of the
17 allocations and the records of WSC.
18

19 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

20 A. Yes it does.